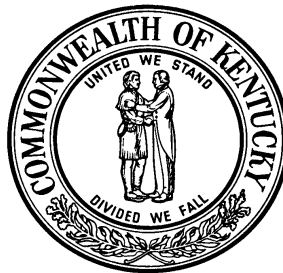


**REPORT OF THE AUDIT OF THE  
FORMER BATH COUNTY  
CLERK**

**For The Year Ended  
December 31, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER BATH COUNTY CLERK**

**For The Year Ended  
December 31, 2006**

The Auditor of Public Accounts has completed the former Bath County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Revenues decreased by \$55,660 from the prior year and expenditures decreased by \$40,763 resulting in a deficit of \$1,375 for calendar year 2006. In January 2007, the County Clerk eliminated the year-end deficit by depositing \$1,375 of personal funds.

#### **Report Comments:**

- The Former County Clerk Eliminated A Deficit By Depositing \$1,375 Of Personal Funds
- The Former County Clerk's Office Lacked Adequate Segregation Of Duties

#### **Deposits:**

The former County Clerk's deposits, as of April 10, 2006, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$8,759



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lowell Jamison, Bath County Judge/Executive  
The Honorable Glen Thomas, Former Bath County Clerk  
The Honorable Carolyn Rogers, Bath County Clerk  
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Bath County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the former County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 30, 2007 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Lowell Jamison, Bath County Judge/Executive  
The Honorable Glen Thomas, Former Bath County Clerk  
The Honorable Carolyn Rogers, Bath County Clerk  
Members of the Bath County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former County Clerk Eliminated A Deficit By Depositing \$1,375 Of Personal Funds
- The Former County Clerk's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Bath County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

March 30, 2007



BATH COUNTY  
 GLEN THOMAS, FORMER COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services	\$	6,331
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Fiscal Court		3,172
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	287,736
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Usage Tax		508,374
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Tangible Personal Property Tax		650,450
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Other-

Marriage Licenses		3,381
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Deed Transfer Tax		20,124
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Delinquent Tax	91,193	1,561,258
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		8,634
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Real Estate Mortgages		17,705
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Chattel Mortgages and Financing Statements		43,119
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Powers of Attorney		1,107
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All Other Recordings		12,005
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Charges for Other Services-

Candidate Filing Fees		2,540
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Copywork	8,139	93,249
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Other:

Refunds		3,731
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Miscellaneous	221	3,952
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Interest Earned		585
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Total Revenues		1,668,547
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The accompanying notes are an integral part of this financial statement.

BATH COUNTY  
 GLEN THOMAS, FORMER COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2006  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 222,670

Usage Tax 492,446

Tangible Personal Property Tax 242,778

Licenses, Taxes, and Fees-

Delinquent Tax 9,998

Legal Process Tax 10,685

Affordable Housing 5,382 \$ 983,959

Payments to Fiscal Court:

Tangible Personal Property Tax 63,949

Delinquent Tax 10,056

Deed Transfer Tax 19,116 93,121

Payments to Other Districts:

Tangible Personal Property Tax 317,703

Delinquent Tax 45,426 363,129

Payments to Sheriff

1,145

Payments to County Attorney

14,600

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 112,930

Employee Benefits-

Employer's Paid Health Insurance 19,510

Materials and Supplies-

Office Supplies 3,654

Other Charges-

Refunds 3,680

Postage 1,098

Miscellaneous 155 141,027

Total Expenditures

\$ 1,596,981

The accompanying notes are an integral part of this financial statement.

BATH COUNTY  
GLEN THOMAS, FORMER COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2006  
(Continued)

Net Revenues	\$ 71,566
Less: Statutory Maximum	<u>69,341</u>
Excess Fees	2,225
Less: Expense Allowance	<u>3,600</u>
Deficit*	<u><u>\$ (1,375)</u></u>

\*Note: In January 2007, the former County Clerk deposited two checks totaling \$1,375 of personal funds to eliminate this deficit.

BATH COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BATH COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2006  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 10, 2006, \$8,759 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured      \$8,759

BATH COUNTY  
GLEN THOMAS, FORMER COUNTY CLERK  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2006

Assets

Cash in Bank	\$	65,649	
Receivables		944	
			<hr/>
Total Assets			66,593
			<hr/>

Liabilities

Paid Obligations:

Outstanding Checks	\$	6,460	
Outstanding Liabilities		61,508	
			<hr/>
			67,968
			<hr/>

Total Deficit as of December 31, 2006	\$	(1,374)
		<hr/> <hr/>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lowell Jamison, Bath County Judge/Executive  
The Honorable Glen Thomas, Former Bath County Clerk  
The Honorable Carolyn Rogers, Bath County Clerk  
Members of the Bath County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Bath County Clerk for the year ended December 31, 2006, and have issued our report thereon dated March 30, 2007. The former County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Bath County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Bath County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Bath County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Former County Clerk's Office Lacked Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Bath County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Former County Clerk Eliminated A Deficit By Depositing \$1,375 Of Personal Funds

This report is intended solely for the information and use of management, the Bath County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

March 30, 2007

## COMMENTS AND RECOMMENDATIONS



BATH COUNTY  
GLEN THOMAS, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

The Former County Clerk Eliminated A Deficit By Depositing \$1,375 Of Personal Funds

As of December 31, 2006, the County Clerk had a deficit of \$1,375 in his official 2006 Fee Account due to expenditures exceeding receipts. In January 2007, the Clerk deposited two checks totaling \$1,375 of his own personal funds in order to eliminate the deficit. Closer monitoring by the former County Clerk of his available receipts to cover expenditures would have eliminated the need for the deposit of personal funds.

*County Clerk's Response:* None

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Former County Clerk's Office Lacked Adequate Segregation Of Duties

The internal control structure lacked a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The County Clerk has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. However, having only one person solely responsible for these duties compromises the internal control structure of the County Clerk's office and increases the risk that misstatements or errors may occur and not be detected in a timely manner.

Because of the limitations of the County Clerk's office, it appears that only compensating controls may mitigate a proper segregation of duties. Compensating controls requires the County Clerk's direct supervision over receipts and disbursements and include but are not limited to the following:

- Surprise counts on cash drawers performed by the County Clerk
- Requiring dual signatures on checks with one being that of the County Clerk
- Requiring employees to be cross-trained
- Requiring employees to take mandatory vacations

The former County Clerk could have utilized the above compensating controls to lessen the risks imposed by an inadequate segregation of duties.

*County Clerk's Response:* None

